



# CURRENCY

## Committee on Financial Services

**Michael G. Oxley, Chairman**

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### **Bachus's Subcommittee to Review FDIC Reform Proposal**

Tomorrow, Financial Institutions and Consumer Credit Subcommittee Chairman Spencer Bachus (AL) will convene the first in a series of hearings on the Federal Deposit Insurance Corporation (FDIC). Set to begin at 9:30 a.m. in room 2128 Rayburn Building, the first hearing will focus on proposals for reform presented by FDIC Chairman Donna Tanoue, as well as industry representatives' views of these options.

"The FDIC has developed a comprehensive plan to reform the deposit insurance safety net which has served our country and our banking system well for almost 70 years. Tens of millions of Americans benefit from the security of having their deposits federally insured for up to \$100,000," said Bachus. "Given the importance of this topic to American consumers and our economy as a whole, this hearing will be the first of several the Subcommittee will hold on deposit insurance reform."

The FDIC administers two funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), which were established in their current form in 1989. The FDIC has been insuring deposits since 1934, when it was created to restore consumer confidence after widespread bank failures. Funds balances are made up of premium assessments paid by financial institutions according to their risk and size plus earnings resulting from fund investments in government obligations.

In April, the FDIC released its report to Congress recommending the following reforms:

- Merge BIF and SAIF; Charge risk-based premiums to all institutions regardless of the fund's size;
- Allow the insurance fund to build or shrink gradually around a target or range;
- Establish rebates that are based on past contributions to the fund; and\
- Index insurance coverage to the Consumer Price Index.

Because the funds are currently healthy, exceeding levels mandated by law, new and fast-growing institutions pay no premiums even though they benefit from the federal insurance. The FDIC's report to Congress expresses concern about assessment volatility: the current system requires no fund contributions during robust economic times, but a weakened economy could trigger assessments from institutions at a time when they are least able to afford payments.

Regarding the level of funds insured, the \$100,000 level was set in 1980. It has been raised several times since the original, Depression-era limit of \$2,500. Those who oppose raising the limit argue that it would allow financial institutions to incur greater risk, pointing out that the institutions would reap the profits, but the government would bear losses.

House Financial Services Committee Chairman Michael G. Oxley (OH) said, "Sound financial institutions are an indispensable part of a vibrant economy, and the FDIC is at the heart of Americans' confidence in the safety of their deposits."

Witnesses to present testimony are:

**Panel I**

- The Honorable Donna Tanoue, Chairman, Federal Deposit Insurance Corporation

**Panel II**

- James E. Smith, Chairman and Chief Executive Officer, Union State Bank and Trust of Clinton, Missouri, President - Elect of the American Bankers Association
- David Bochnowski, Chairman and Chief Executive Officer, Peoples Bank, SB, Munster, Indiana, Chairman of America's Community Bankers
- Robert Gullledge, President and Chief Executive Officer, Citizens Bank, Inc. of Robertsedale, Alabama, Chairman of the Independent Community Bankers of America

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